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ABSTRACT

This module, which may be used as the basis for a workshop or as a special topic unit in adult basic education or English-as-a-Second-Language (ESL) courses, addresses how to file and pay federal income taxes. Topics covered include the following: defining tax-related vocabulary; analyzing tax credits and selecting the most appropriate ones; listing tax form preparation steps; charting U.S. income; working in teams; locating, analyzing, and using resources; and researching online. Basic skills addressed include thinking skills, personal qualities, using resources, interpersonal skills, using information, and working with systems. The module contains the following: teaching points for the instructor; sample learning activities; a list of 12 resources; a sample lesson plan consisting of objectives, learners and context, room setup, materials needed, tasks to do ahead, media used, and steps for conducting the lesson; role-play materials; and pre- and postassessments. (KC)

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ED 416 354

Tierra de Oportunidad

MODULE 17

Dealing With Taxes

Ed Kissam and Holda Dorsey

U.S. DEPARTMENT OF EDUCATION
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MODULE 17
Dealing with Taxes

Overview

Paying taxes is one of the most basic aspects of living in American society. Although many immigrants have low earnings, this does not mean that they do not owe taxes. Paying taxes is part of one's duty as a U.S. resident and as a citizen, but it is also part of buying into the community life and gives taxpayers a say in how their taxes are spent and in making decisions in local communities, in states, and the nation.

This module focuses on federal income tax issues, but it should be recognized that there is also state and local taxes and many important issues relating to how they are spent. As might be expected, U.S. tax laws vary a great deal from the tax laws or other countries.

Although many Americans rely on professional tax preparers to provide them assistance in calculating the state and federal income tax and filing of their return, many others prepare their income tax returns on their own. Whichever approach one takes, it is important to take responsibility for paying "the right amount" of taxes -- neither too little, nor too much.

While many immigrants, like U.S. citizens, may fail to file a tax return or fail to declare all of their income, it is illegal. It can result in penalties, and jeopardize their immigration status. Many others who do file and report accurately, probably pay more taxes than they owe, because they fail to claim the credits and take the deductions to which they are entitled. Even if one seeks help from a professional, there are many important things about taxes that can and should be done by or for oneself.

There are serious potential consequences of not paying taxes or calculating one's taxes too low. Although many Americans who understate their taxes are not caught, many are. Immigrants must remember that underpayment of taxes is a crime and that the INS requires citizenship applicants to make statements about whether they have been convicted of any felonies as part of the process of securing citizenship.

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Immigrants, like citizens, should be aware of some specific factors which may decrease their income tax liability. Factors particularly relevant to young, low-to-medium income families include: the Earned Income Tax Credit, the availability of tax credits for child care expenses, the advantages and limitations of itemizing deductions, and the availability of personal IRA's and SEP-IRA's. Students should also understand the possible utility of exploring even more complicated tax-related issues so they can begin to actively plan their financial lives.

Instructors should stress that tax law is constantly changing. The information summarized in this module, for example, is based on 1995 and may no longer be accurate. Adult learners need to keep up to date on how the tax laws change from year to year.

Basic Skills Development

This module is oriented toward building analytic skills in quantitative reasoning and problem solving. It also can be used as a means of building learners' life-management skills. Analyzing tax liabilities is perhaps the most traditional way for ordinary families to be proactive. Computing and paying the right amount of taxes is a basic requirement of contemporary life; planning and taking tax considerations into account as part of economic decisions are important life skills.

The actual computation skills required for thinking about tax liabilities are not very demanding but this kind of critical thinking requires a good deal of effort in mapping out scenarios, internal dialogue and dialogue with others "testing" assumptions and evaluating strategies.

Specific skills areas addressed in this module are the following:

Basic Skills	computing percentages by dividing two quantities, computing the product of a quantity multiplied by a percentage, decisions involving comparison of two numbers and deciding which is greater than the other.
Thinking Skills	breaking down a problem into smaller component parts, the effects of sequencing computations differently, exploring the effects of alternative ways of computation, practice in "if...then", reasoning, weighing pros and cons of decisions learning to learn, using print, on-line, software, and personal information resources.

Personal Qualities	integrity and honesty, responsibility.
Uses Resources	tradeoffs between time and money (in choosing to rely on a tax preparer), using print, on-line, and telephone-accessible resources, the pros and cons of relying on discussions with families and friends.
Interpersonal Skills	discussing information with family and friends, communicates with others.
Uses Information	determining which financial information needs to be backed up with records or documentation, storing and organizing this high-priority information, following information that affects one's life, i.e., changes in tax laws.
Works With Systems	linkages between different system areas (paying tax liabilities and securing citizenship, paying taxes and political empowerment), understanding the tax implications of others' decisions, understanding that reports to the government are audited and reviewed.

Teaching Points

GENERAL

1. **Individuals and families should pay the right amount of tax**. Neither too much, nor too little. It is difficult to know if you are paying the right amount of federal income tax unless you pay attention to it. Even if you have a professional tax preparer fill out your income tax return, you are responsible for paying the correct amount. It is possible the preparer may not explore all the issues that are relevant to each individual situation. In particular, there are some factors that affect an immigrants' tax liability which tax preparers may forget to address. These specific concerns are addressed in the Specifics section below. Correctly calculating California state income tax generally requires preparing a federal tax return as most of the factors which affect tax liability are parallel. Even if you do not file a tax return and have successfully managed to not file for years, you are breaking the law and may eventually experience the consequences. These consequences include stiff fines and possible criminal prosecution.

2. **Paying taxes gives the taxpayer a stake in the government.** Even low-income families pay enough taxes to really give them a stake in the government. If it is assumed that a family of four persons who had an earned income of about $20,000 in 1995, probably paid about $2,000 in federal taxes. Which is a substantial amount of money. As taxpayers they have the right to expect and demand that their taxes be used effectively and properly. They may also have paid California income tax and they surely have paid some state and local taxes -- in the form of California's 8 or more percent, sales tax and, even if they are not homeowners, a portion of their rent which is passed through by landlords in the form of property taxes.

3. **Deciding how to go about calculating and preparing tax returns is a personal decision. Each person should consider what makes the most sense for them.** Federal income tax forms are hard for many people to understand. It is also important to get them right. However, many individuals, even those with a limited education, have learned how to fill them out accurately. Many alternatives are available. A person can have a professional tax preparer fill out their tax return. Even if they choose this alternative, they have the important responsibility of making sure the information they provide the preparer is accurate and deciding whether the preparer has done a good job for them. If a person wants to fill out their own income tax return, they can get assistance from the IRS, via telephone, at a local office. If they have a computer, they can also buy tax preparation software (almost all of which retails for less than $50).

4. **Paying taxes is an important part of becoming a citizen**. The citizenship application process requires INS to review whether an applicants has committed felonies or not. While most low-income families' tax violations are likely not to be prosecuted criminally or, if so, be felonies, this is an important consideration. At the best, not filing an income tax return, filing it late, or filing an inaccurate return will, if discovered by the IRS, result in substantial tax penalties.

5. **Students should begin to inform themselves about taxes**. Everyone should, at least, look at the federal tax form 1040 and try to understand about federal taxes. People can then begin to explore the specific instructions, definitions, and forms which apply to them. This can provide a basic awareness of taxes. But Federal tax law keeps on changing and people should try to follow what is happening. Some of the changes are obscure but some substantially affect even low-income families. What was true one year may no longer be true the next year. Also, an important part of dealing with taxes is to use whatever legal strategies are available to minimize the taxes paid. An extremely common strategy for American families to minimize taxes is to buy a house, as mortgage interest is deductible if one itemizes deductions.

6. **Students should keep financial records that will allow them to fill out tax forms accurately.** People need not keep elaborate financial records unless they have elaborate finances, but they should keep adequate records. . A basic principle of dealing with taxes is to track the kinds of financial transactions which make a difference in tax liability, for example, earned income, child care expenses, and medical expenses (although they are often not worth deducting unless they are unusually high). In principle, employers who hire employees must provide their workers with a W-2 form reporting their previous year earnings. However, workers who change jobs often or move often (such as farmworkers) commonly do not receive their W-2 forms. Also, casual laborers who work as non-employees are often treated as independent contractors, even though they may not technically meet the criteria. If the person or firm who hired them does not treat them as an employee, they must treat their earnings from casual work as their own business.

Specific High-Priority Tax Issues To Address

7. **Students should determine their tax filing status and number of dependents.** After tracking one's income, this is perhaps the first step in income tax preparation. It is important to know what one's tax filing status and reported number of dependents are in order to decide whether or not to itemize deductions, as well as for other tax calculations. Immigrants working legally in the U.S. and living on their own can list a spouse living in another country as an exemption. Dependents (e.g. children, elderly parents, siblings) living in a foreign country can also be claimed as exemptions. The test is generally whether the dependent: a) earned less than $2,500 during the year, and b) received more than half of their support from the person who is filing the return. Assuming that low-income immigrants have an effective federal income tax rate of 10 percent, each exemptions is worth about $250 (ten percent of the $2,500 exemption).

8. **Students should consider whether they can benefit from the Earned Income Credit.** Families with children in which both spouses are legal residents or citizens (or where one partner is a legal resident and the other is a citizen) which earn less than $24,000 are likely to qualify for some amount of Earned Income Credit. The instructions on the form are fairly complex, but if a family fills out the Earned Income Credit worksheet (which is easy to fill out) and attaches it to their Form 1040, they can have the IRS compute their credit. For a family with two children earning $20,000, the credit may be worth about $1,200.

9. **Students should consider whether they can receive a tax credit for Child or Dependent Care expenses.** This is for families in which both parents work and they pay a third party for taking care of their dependents, children under 13 years of age, or sick elderly parents. This credit is worth about one-quarter of actual care expenses, but no more than about $1,200 for a family.

10. **Students should consider whether some of their earnings are actually business income from self-employment and whether they are required to pay self-employment tax.** Many recent immigrants work as casual laborers in jobs in which they are likely to be paid in cash. Some of the kinds of work where payment is commonly made in cash without the employer establishing a bona fide employer-employee relationship are the following: construction cleanup, gardening, child care, house maid. While workers who receive this kind of pay (either in cash or check) may, technically, be employees whether or not they had a written employment agreement, their employers may or may not actually report payments on a W-2, although some domestic employers are now filing a W-2. Employees should be aware that these arrangements reduce future social service benefits. While the issue of whether a worker is actually an employee or a self-employed business person is complex, the bottom line is that they owe income tax on the money they earned. If they are considered a self-employed business person, they must also pay self-employment tax, which goes toward their social security account. However, they may also be able to deduct some business expenses which they would not be able to deduct as employees. Workers who have this sort of self-employment income might be wise to consult with a tax preparer to see what they can claim as expenses and what kind of documentation they need.

11. **Students who are self-employed or who are not covered by an employer-sponsored health plan should consider buying health insurance for themselves and their family.** Self-employed workers (e.g. casual laborers working as gardeners) can deduct about 30 percent of what they pay for health insurance for themselves and their dependents from their income. Although health insurance is expensive for workers with low-to-moderate incomes, it may be made slightly more affordable with the income tax deduction. It appears that workers who are employed by a company which does not provide them with health insurance could, if their spouse works, arrange for their spouse to buy the private health insurance plan and deduct it as a self-employed health insurance deduction.

12. **Students who are not covered by a company pension or retirement plan, should consider establishing IRA's or, if self-employed, SEP-IRA's.** It is generally believed that few people can count on living on Social Security payments when they retire. While company-sponsored pension plans are a common feature of mainstream employment, they are quite uncommon in immigrant-dominated industries. Therefore, many immigrant workers, even those who have better-paying and more stable jobs than the average, will find it difficult to retire. The tax code now includes provisions for IRA's (Individual Retirement Accounts) and SEP-IRA's (Self Employed Persons Individual Retirement Accounts). Workers can put long-term savings into these accounts tax-free and begin to earn on their savings in any one of a huge variety of plans.

Anyone who can afford setting the money aside should consider establishing an IRA or SEP-IRA.

13. **Some people with very low earnings are not legally required to file an income tax return but most low-income taxpayers will receive a refund if they do file.** In 1995, workers under 65 years of age who earned less than $6,400 did not need to file an income tax return; married workers with children earning less than $8,250 did not need to file. However, if tax was withheld from the workers' pay, they still need to file an income tax return to secure a refund. Workers who were unemployed for part of a year are almost certain to get an income tax refund if they file, as withholding is based on the assumption that the worker will be employed steadily throughout the year.

14. **There is much more to know about federal, state, and local taxes. Adult learners should take the responsibility of finding out about these issues themselves.** There are many additional issues of which adult learners need to be aware of. Instructors and students can review and discuss the IRS instruction pamphlet or the information listed online under **www.irs.ustreas.gov/html**. Other basic topics of importance include: filing date, April 15; filing extensions, straightforward but estimated tax liability must be paid on time; treatment of unemployment compensation, it is taxable by the federal government, but not by California; and moving expenses, which are also treated differently by state and federal tax authorities.

Sample Learning Activities

1. Ask students what they know about paying federal income tax. Write on the blackboard the kinds of information students have mentioned. Compare to the teaching points in the module. Talk with students about whether they are certain about the information they have, think it is mostly right, think it is right but are not sure, or think they do not really know.

2. Review the teaching points about decreasing tax liability using: a) Earned Income Tax Credit, b) Credit for Child or Dependent Expenses, and c) Setting up IRA's or SEP-IRA's. Discuss with the class which of these strategies seem most useful to them or to the people they know. Discuss why some people might not be able to use these strategies.

3. Discuss the IRS table on page 7 of the 1995 1040 booklet. Discuss the different activities involved in preparing a tax return (recordkeeping, learning about the law or the form, preparing the form, copying, saving the copy). Do students think the estimated amounts of time for recordkeeping, learning about the law or the form, preparing the form, copying and totals are right?

4. Review the 1040 form and discuss what is good and bad about it. Ask students to write a letter to the IRS Tax Forms Committee suggesting changes to make the forms better. Alternatively, ask students to call and leave a recorded message at (800) 829-9043. Details are on page 7 of the 1995 - 1040 booklet.

5. Ask a local CPA, bookkeeper, or tax preparer to make a presentation to the class about the way they work with their clients to prepare tax returns. Ask them to talk with the class about the kinds of financial records they will need to keep to be able to provide accurate information (either to the tax preparer or in completing the form themselves).

6. Ask local CPA, bookkeeper, tax preparer, or business person to talk to the class about the kinds of records a self employed person should keep. Ask the presenter to discuss how small business owners decide how detailed the records should be. Tell students that even if a CPA does the tax return, they are responsible for the correct tax.

7. Ask the class to try calling the IRS help assistance hotline and asking one of the questions about which they are unclear. How long did they have to wait before they gave up or talked to someone? Was the information they got easy to understand? If not, why?

8. Ask the class how many of them have health insurance from work. Discuss whether health insurance might be feasible or worthwhile to buy (assuming it costs somewhere between $150-$200 per month) given their medical expenses. You might combine this discussion with a presentation by a local independent insurance agent or a representative from a health insurer. This information can be found in the Yellow pages.

9. Discuss with the class what they know about what their taxes go for. Summarize reports. Discuss whether it might seem worthwhile to be better informed about what taxes are spent on, given the rule-of-thumb that each of them pays about 10 percent of their income in federal income tax.

10. Ask students to find if any local organizations are offering to help people with their tax returns? (The involved volunteer groups and arrangements vary a great deal from community to community but usually some group provides volunteer help).

11. Compare how Child Care and Dependent Expenses credits work for a family of six children with how they works for a family with one child, working through the actual form with the class. Explain why the form is less difficult than it seems, because of the contingencies for very low-income and high-income earners.

12. Survey the class as to how many people have gone to tax preparers and how many have filled out their own income tax returns or had friends or family help them. What has their experience been?

13. If there is a computer in the classroom, buy, or get donations to buy, one of the commercial tax preparation software packages. Some are available for as little as $20. Encourage students to use the software, to try and figure their taxes or to explore "what-if" tax strategies?

14. Have students pair up in role playing exercises, in which one plays the role of a head of household seeking advice and the other plays the role of a volunteer tax advisor. Stress that the point of this exercise is not to get or give accurate information as it is to practice about communicating about financial issues.

15. Pair students up in a role playing exercise in which one person argues that it is too difficult to prepare and file a tax return and the other person attempts to convince them that it is worthwhile.

RESOURCES

Note: *The IRS Forms and Instructions are available at many post offices and libraries. The standard package is available in Spanish as well as English.*

The IRS 1995 1040 Forms and Instructions: IRS Form 1040, Schedule A, Schedule C, Schedule SE, Form 2441-Child and Dependent Care Expenses, Instructions, Tax Tables

IRS maintains a toll-free Tax Help Number: It is (800) 829-1040.
(The call will require patience. It is usually busy.).

"Not all Tax Software is Created Equal", Feature in Personal Business section, Business Week, February 5, 1996.

Well-designed pamphlets on IRA's, SEP-IRA's, planning for retirement, are available from virtually all mutual funds, almost all of which have a toll-free number.

Instructors can prepare to teach about this topic by reviewing the IRS instruction pamphlet or by buying one of many inexpensive tax preparation books (or even by buying and working with one of the affordable income tax software packages).

Online information:

http://www.irs.ustreas.gov/prod/cover.html/

A well organized site with Internal Revenue Services information, education, forms, etc. To download the forms a special software is required but it is available free of charge right where it is needed.

http://www.doc.gov/BudgetFY97/guide2.html/

Great information on tax monies: "Where it comes from and where it goes". Wonderful graphics.

http://www.tso.org/govirs.0.html/

Directory of free services, news, questions and answers.

Commercial Textbooks

Building Real Life English Skills, National Textbook Co.
Ch. 8, Filling Out Forms

Contact USA, Prentice Hall Regents
Ch. 11, Taxes, Taxes, and More Taxes

Ready to Work, Contemporary Books
Unit 7, The World of Work

Life Skills Reading, Educational Design, Inc.
P. 25-26, Paying Taxes

17. DEALING WITH TAXES

OBJECTIVES

- define tax related vocabulary;
- analyze tax credits and select the most appropriate;
- list preparation steps
- chart US income and expenses.

LEARNERS & CONTEXT

Adult students. Average ability of the group is medium. The range of ability is wide. Motivation is high. Group size is between 11 and 30. There are many learners whose English is limited.

ROOM SETUP

Chairs and small tables to facilitate small group activities

TO BRING

Copies of IRS 1040 Forms, 3 x 5 cards

TO DO AHEAD

Get IRS 1040 Forms and Instructions
If possible get a tax preparation computer program.
Make arrangements for student access to phone lines and online services

MEDIA USED

Overhead, blackboard.

STEPS

Introduction
Vocabulary
What do you know?
Preparations
Questions
Getting Help
Break
Estimating Taxes
Where does the money go?
Reading
Budgeting
Reflection
Closure

Lesson Plan: Dealing With Taxes

	Introduction	Teacher states objectives as listed on a transparency:
(10 min)	*Information Preview* *• State Objectives Formally*	Today you will be able to: • define Tax related vocabulary; • analyze tax credits and select the most appropriate; • list preparation steps; • chart US income and expenses.
	overhead	You will also practice: "if...then" reasoning; locating, analyzing and using resources; working with a team; online research.
	Vocabulary	Teacher asks students to form two groups. Teacher gives on group 3 x 5 cards with vocabulary words and the other group 3 x 5 cards with definitions.
(20 min)	*Prior Knowledge Activation* *• Warm-Up Exercise*	Teacher instructs students to find their partner.
	3 x 5 cards	As students find a match they work together to prepare the best way to introduce their word to the class. Pairs define their words to the class.
	What do you know?	Teacher asks students what they know about paying income tax. Teacher writes on the blackboard the information mentioned by the student.
(15 min)	*Motivation* *• Establish Tie to Interests*	Ask students whether: A) they are certain about the information, B) they think that it is mostly right, C) they think it is right but are not sure, or C) they really don't know.
	blackboard	
	Preparations	Teacher asks students to work in pairs. They will be looking for information that they need to have at income tax time. Proof of income and expenses, plus proof for deductions and credits.
(15 min)	*Information Acquisition* *• Inquiry - Group*	Teacher gives each pair a handout for students to locate and list the necessary information.
	print	Student pairs compare their lists, and discuss why they listed certain items.

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Lesson Plan: Dealing With Taxes

	Questions	Teacher tells students that before using a tax preparer they need to find the right one for them.
(15 min)	*Practice & Feedback* *• Group Practice - Indep.*	Students are to brainstorm, analyze and agree on the questions they should ask of the tax preparers.
	blackboard	
	Getting Help	Teacher asks students to continue work in groups of four.
(25 min)	*Practice & Feedback* *• Group Practice - Indep.*	Some students are to find tax preparers and call them to check their experience, education, and price, using questions prepared.
	mixture	Other students are to use use city guides, phone books, or online services to locate local organizations that offer to help people with their tax returns.
	Break	Students may take a few minutes to stretch, walk around, change places. Teacher completes attendance record and other paperwork.
(10 min)	*Other* *• Break*	
	Estimating taxes	Teacher demonstrates with a transparency how to find the tax: 1. Read down the income column until you find the income as shown on Form 1040A.
(15 min)	*Practice & Feedback* *• Individual Practice - Indep.*	2. Then read across to the column headed by the number of exemptions claimed.
	print	3. The amount shown where the two lines meet is the tax.
		Students practice individually completing the handout.
		Students share their answers with the group.

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Lesson Plan: Dealing With Taxes

(5 min)	**Where does the money go?** *Motivation* • *Cite Model*	Teacher tells the students: A family reviews the family budget, discussing how much they expect to earn and how much they will be able to spend on food , shelter, clothing, transportation, and how much they might be able to save for future needs; The Federal Government plans its budget much like a family does. The government officials determine how much money they expect to receive from taxes and other sources. Then, they discuss and negotiate, how much can be spent to reach their goals.
(10 min)	**Reading** *Information Acquisition* • *Silent Reading* *print*	Teacher breaks the class into two groups. One group reads "Revenues"; and the other group reads"Spending".
(15 min)	**Budgeting** *Practice & Feedback* • *Role Play*	Students then use their information to plan a Federal Budget. Student discuss, analyze, negotiate and reach agreement in how to balance the "budget".
(15 min)	**Reflection** *Closure* • *Reflection*	Teacher asks students to reflect on what they have learned and to list of three reasons for filing income tax forms accurately. Teacher asks students to volunteer some of their reasons.
(10 min)	**Closure** *Closure* • *Learner Summary* *overhead*	Teacher asks students to review objectves and highlight important aspects of the lesson. Today we learned to: • define tax related vocabulary; • analyze tax credits and select the most appropriate; • list preparation steps; • chart US income and expenses.

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Lesson Plan: Dealing With Taxes

We also practiced:
"if...then" reasoning;
locating, analyzing and using resources;
working with a team;
online research.

OBJECTIVES

You will be able to:

- **Define tax related vocabulary;**
- **Analyze tax credits and select the most appropriate;**
- **List preparation steps;**
- **Chart U. S. income and expenses.**

You will also practice:

* **Working in teams;**
* **Locating, analyzing and using resources;**
* **Researching Online.**

LAES

adjusted gross income HDorsey - LAES	the amount that is taxed after all deductions are made HDorsey - LAES
allowance HDorsey - LAES	an amount that lowers the tax you pay HDorsey - LAES
audit HDorsey - LAES	a review made by IRS to see whether a tax form is filled out correctly HDorsey - LAES
deduction HDorsey - LAES	a tax deduction is an expense that you can subtract from the total taxable income HDorsey - LAES

LAES

dependent HDorsey - LAES	a person whom you support financially, i.e. spouse, child HDorsey - LAES
earned income credit HDorsey - LAES	a type of credit from the government that lowers the amount of tax owed HDorsey - LAES
exemption HDorsey - LAES	a deduction you can claim on your federal income tax HDorsey - LAES
federal tax liability HDorsey - LAES	the total amount of federal income tax you owe each tax year HDorsey - LAES

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filing status HDorsey - LAES	a group name to classify taxpayers, i.e., Single, Married/separate, Married/joint. HDorsey - LAES
Form W - 2 HDorsey - LAES	a form that the employer gives you (before January 31), for the tax year. W2 shows: gross wage, withholding tax paid, social security paid, local and state taxes paid HDorsey - LAES
Form W - 4 HDorsey - LAES	a form you fill out and give to each new employer when you get a job HDorsey - LAES
gross incom HDorsey - LAES	the total amount of money you earn: wages, interest, dividends, tips HDorsey - LAES

LAES

interest incom

HDorsey - LAES

money earned in interest on your savings account

HDorsey - LAES

IRS

HDorsey - LAES

Internal Revenue Service, the federal agency that collects federal income tax

HDorsey - LAES

itemize deductions

HDorsey - LAES

make a list of your tax deductions for the tax year

HDorsey - LAES

records

HDorsey - LAES

proof of expenses paid

HDorsey - LAES

LAES

Long 1040 HDorsey - LAES	federal income tax form to fillout if you itemize your deductions, or claim child care or moving expenses, etc. HDorsey - LAES
Short 1040A HDorsey - LAES	federal income tax form that you can use if your income was from wages, tips, interest and dividends and you received less than $400 in interest or dividend income HDorsey - LAES
tax credit HDorsey - LAES	an item or expense that you can subtract from the tax you owe HDorsey - LAES
tax preparer HDorsey - LAES	someone, paid or unpaid, who fills out your tax forms HDorsey - LAES

LAES

tax refund HDorsey - LAES	money that you get back from the government if you have paid too much tax HDorsey - LAES
tax return HDorsey - LAES	the income tax form that you fill in and send to the federal government each year HDorsey - LAES
tax table HDorsey - LAES	a list that tells you how much tax is owed for different amounts of income HDorsey - LAES
withholding tax HDorsey - LAES	money held back from the gross wage on your paycheck for federal income tax HDorsey - LAES

Dealing with Taxes

Planning

In order to have the appropriate information at income tax time, it is important to keep records. Some records are proof of expenses. They help you keep track of what you spend. Records can be: receipts, bank statements, canceled checks, account's statement.

Other records are papers that prove ownership. For example, your car title proves you own your car. Your rental agreement or lease is proof of your housing arrangements with your landlord.

It is important to keep records all the time, not just at income tax time. Knowing what records to keep will help you plan for income tax time.

It is good to keep your records in one safe place in your home. Use a file box, or a special drawer. In this place you should keep separate envelopes for different records, for example:

Personal records:	marriage license, birth certificates, passports,
Medical records:	vaccinations or other medical conditions,
Education records:	school certificates and awards, and
Legal records:	other legal papers that you might have.
Work records:	paycheck stubs, policies and insurances

You can also have envelopes for:

Child care expenses	Housing expenses	Transportation expenses
Bank statements	Loan payments	Medical expenses

Keep most of your expense records for about five years.

Tax Deductions

Certain expenses can be deducted from your gross income. These deductions can be subtracted from your total taxable income lowering the amount of tax you have to pay. They are the tax deductible items for you or your dependents:

Medical:	money paid to doctors, dentists, medical laboratories, hospitals or pharmacies.
	money paid for hearing aids, eyeglasses, false teeth, etc.
	money spent when you travel to get medical care.
Taxes:	money paid for sales tax on car, mobile home.
	money paid for local and state income taxes.
	money paid for property or real estate taxes.

Work:	travel expenses to look for a job, tools or special clothing needed for a job education and training to keep your job money paid to belong to a union at work money paid to an agency to find you a job
Other:	money or things given to a church or charity money paid to a tax preparer to get your forms filled out money given to a political party repairs done on a property that you rent to someone else

There are certain types of income that you do not have to report on your tax return, because they are not taxed. But you should keep records anyway.
You do not have to report the following kinds of income:

Social security	veteran's benefits	worker's compensation
unemployment benefits	Medicare	food stamps
child support	health insurance	life insurance benefits

Tax Credits

Some expenses are not tax deductible but you get a tax credit for them. You subtract the tax credits from the tax you owe. The most common is: Child or Dependent Care Expenses.

You need to fill out a special form to claim this credit.

If you have expenses for a child or another dependent, you may be able to get a tax credit. The child and dependent care tax credit is used by many families. You may file for it if:

A) You have a child under fifteen who needs to be taken care of while you work or are looking for work.
B) You have a spouse or other dependents who cannot be left at home alone while you work or look for work.

Tax Adjustments

Adjustments are amounts you can subtract from your gross income before you figure your tax. You may claim adjustments even if you do not itemize deductions. There are several different types of adjustments, one of the most common is: Moving Expense Adjustment.

You can claim moving expenses if you moved to take a new job or needed to move to keep your job. To qualify for an adjustment for moving expenses:

A) Your new work place must be 35 miles from your old home.
B) You must work full time for 39 weeks in the year after you move.

You must keep good records of all moving expenses:
the cost of moving household items,
travel costs for you and your dependents as you move,
the cost of looking for a new house of an apartment,
the cost of selling your old home or renting a new place,
the cost of breaking the old lease and paying a deposit on the new place.

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Reading Tax Tables

Student: Read down the income column until you find the amount you are looking for. Read across to the column headed by the total number of exemptions claimed. The amount where the two lines meet is your tax.

	Salary	Exemptions	Tax Owed
1.	10,450	3	_____
2.	10,680	2	_____
3.	9,540	1	_____
4.	9,900	3	_____
5.	10,720	2	_____
6.	7,560	2	_____
7.	5,678	3	_____
8.	7,750	2	_____
9.	8,150	2	_____
10.	9,200	3	_____
11.	5,750	3	_____
12.	10,350	3	_____
13.	9,050	1	_____
14.	6,400	1	_____
15.	10,950	3	_____

19XX Tax Table A—SINGLE (Filing Status Box 1)

(For single persons with income of $20,000 or less on Form 1040A, line 10 who claim 3 or fewer exemptions)

To find your tax: Read down the income column until you find your income as shown on Form 1040A, line 10. Read across to the column headed by the total number of exemptions claimed on Form 1040A, line 6. The amount shown where the two lines meet is your tax. Enter on Form 1040A, line 13.

The $2,200 zero bracket amount, your deduction for exemptions, and the general tax credit have been taken into account in figuring the tax shown in this table. Do not take a seperate deduction for them.

Caution: *If you can be claimed as a dependent on your parent's return AND you have unearned income (interest, dividends) of $750 or more AND your earned income is less than $2,200, you must use Form 1040.*

If line 34, Form 1040, or line 10, Form 1040A is:		And the total number of exemptions claimed is:		
Over	But not over	1	2	3
		Your tax is—		
If $3,200 or less your tax is 0				
3,200	3,250	4	0	0
3,250	3,300	11	0	0
3,300	3,350	18	0	0
3,350	3,400	25	0	0
3,400	3,450	32	0	0
3,450	3,500	39	0	0
3,500	3,550	46	0	0
3,550	3,600	54	0	0
3,600	3,650	61	0	0
3,650	3,700	69	0	0
3,700	3,750	76	0	0
3,750	3,800	84	0	0
3,800	3,850	91	0	0
3,850	3,900	99	0	0
3,900	3,950	106	0	0
3,950	4,000	114	0	0
4,000	4,050	122	0	0
4,050	4,100	130	0	0
4,100	4,150	138	0	0
4,150	4,200	146	0	0
4,200	4,250	154	4	0
4,250	4,300	162	11	0
4,300	4,350	170	19	0
4,350	4,400	178	26	0
4,400	4,450	186	34	0
4,450	4,500	194	41	0
4,500	4,550	203	49	0
4,550	4,600	211	56	0
4,600	4,650	220	64	0
4,650	4,700	228	71	0
4,700	4,750	236	79	0
4,750	4,800	244	87	0
4,800	4,850	251	96	0
4,850	4,900	259	103	0
4,900	4,950	266	111	0
4,950	5,000	274	119	0
5,000	5,050	283	127	0
5,050	5,100	291	135	0
5,100	5,150	300	143	0
5,150	5,200	308	151	0
5,200	5,250	317	159	6
5,250	5,300	325	168	14
5,300	5,350	334	176	21
5,350	5,400	342	185	29
5,400	5,450	351	193	36
5,450	5,500	359	202	44
5,500	5,550	368	210	52
5,550	5,600	376	219	60
5,600	5,650	385	227	68
5,650	5,700	393	236	76
5,700	5,750	402	245	84
5,750	5,800	410	254	92
5,800	5,850	419	264	100
5,850	5,900	427	273	108
5,900	5,950	436	283	116
5,950	6,000	444	292	124
6,000	6,050	453	302	133
6,050	6,100	461	311	141
6,100	6,150	470	321	150
6,150	6,200	478	330	158
6,200	6,250	487	340	167
6,250	6,300	495	349	175
6,300	6,350	504	359	184
6,350	6,400	512	368	192
6,400	6,450	521	378	201
6,450	6,500	529	387	210
6,500	6,550	538	397	219
6,550	6,600	546	406	229
6,600	6,650	555	416	238
6,650	6,700	563	425	248
6,700	6,750	572	435	257
6,750	6,800	580	444	267
6,800	6,850	589	454	276
6,850	6,900	597	463	286
6,900	6,950	606	473	295
6,950	7,000	615	482	305
7,000	7,050	624	492	314
7,050	7,100	634	501	324
7,100	7,150	643	511	333
7,150	7,200	653	520	343
7,200	7,250	662	529	352
7,250	7,300	672	538	362
7,300	7,350	681	548	371
7,350	7,400	691	558	381
7,400	7,450	700	563	390
7,450	7,500	710	572	400
7,500	7,550	719	580	409
7,550	7,600	729	589	419
7,600	7,650	738	597	428
7,650	7,700	748	606	438
7,700	7,750	757	615	447
7,750	7,800	767	624	457
7,800	7,850	776	634	466
7,850	7,900	786	643	476
7,900	7,950	795	653	485
7,950	8,000	805	662	495
8,000	8,050	814	672	504
8,050	8,100	824	681	514
8,100	8,150	833	691	523
8,150	8,200	843	700	533
8,200	8,250	852	710	542
8,250	8,300	862	719	552
8,300	8,350	871	729	561
8,350	8,400	881	738	571
8,400	8,450	890	748	580
8,450	8,500	900	757	590
8,500	8,550	909	767	601
8,550	8,600	919	776	611
8,600	8,650	928	786	622
8,650	8,700	938	796	632
8,700	8,750	947	805	643
8,750	8,800	957	814	653
8,800	8,850	966	824	664
8,850	8,900	976	833	674
8,900	8,950	985	843	685
8,950	9,000	996	852	695
9,000	9,050	1,007	862	706
9,050	9,100	1,018	871	716
9,100	9,150	1,029	881	727
9,150	9,200	1,040	890	737
9,200	9,250	1,051	900	748
9,250	9,300	1,062	909	758
9,300	9,350	1,073	919	769
9,350	9,400	1,084	928	779
9,400	9,450	1,096	938	790
9,450	9,500	1,106	947	800
9,500	9,550	1,117	957	811
9,550	9,600	1,128	966	821
9,600	9,650	1,139	976	832
9,650	9,700	1,150	985	842
9,700	9,750	1,161	996	852
9,750	9,800	1,172	1,007	862
9,800	9,850	1,183	1,018	871
9,850	9,900	1,194	1,029	881
9,900	9,950	1,205	1,040	890
9,950	10,000	1,216	1,051	900
10,000	10,050	1,227	1,062	909
10,050	10,100	1,238	1,073	919
10,100	10,150	1,249	1,084	928
10,150	10,200	1,260	1,096	938
10,200	10,250	1,271	1,106	947
10,250	10,300	1,282	1,117	957
10,300	10,350	1,293	1,128	966
10,350	10,400	1,304	1,139	976
10,400	10,450	1,315	1,150	985
10,450	10,500	1,326	1,161	996
10,500	10,550	1,337	1,172	1,007
10,550	10,600	1,348	1,183	1,018
10,600	10,650	1,359	1,194	1,029
10,650	10,700	1,370	1,205	1,040
10,700	10,750	1,381	1,216	1,051
10,750	10,800	1,392	1,227	1,062
10,800	10,850	1,403	1,238	1,073
10,850	10,900	1,414	1,249	1,084
10,900	10,950	1,425	1,260	1,096
10,950	11,000	1,436	1,271	1,106

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Revenues

The money that the Federal Government uses to pay its bills --its revenues --comes mostly from taxes. In recent years, revenues have been lower than spending, and the Government has borrowed to finance the difference between revenues and spending --that is, the deficit.

Revenues come from these sources:

* Individual income taxes will raise an estimated $645 billion in 1997, equal to about 8 percent of GDP (Gross Domestic Product) -- about the same percent as in each of the last 40 years.

* Social insurance payroll taxes --the fastest growing category of Federal revenues -- include Social Security taxes, Medicare taxes, unemployment insurance taxes, and Federal employee retirement payments. This category has grown from two percent of GDP in 1955 to seven percent in 1997.

* Corporate income taxes, which will raise an estimated $185 billion in 1997, have shrunk steadily as a percent of GDP, from 4.6 percent in 1955 to 2.2 percent today.

* Excise taxes apply to various products, including alcohol, tobacco, transportation fuels, and telephone services. The Government earmarks some of these taxes to support certain activities --including highways, airports and airways, and the cleanup of hazardous substances --and deposits others in the general fund.

* The Government also collects miscellaneous revenues --e.g., customs duties, Federal Reserve earnings, fines, penalties, and forfeitures.

Between 1960 and 1995, payroll taxes have increased substantially as a percent of Gross Domestic Product, and corporate income taxes have declined, but individual income taxes have remained roughly constant. These trends are not expected to change over the next five years.

Spending

The Federal Government will spend over $1.6 trillion which we divided into eight large categories.

* The largest Federal program is Social Security, which provides monthly benefits to more than 43 million retired and disabled workers, their dependents, and survivors. It accounts for 22 percent of all Federal spending.

* Medicare, which provides health care coverage for over 37 million elderly Americans and people with disabilities, consists of Part A (hospital insurance) and Part B (insurance for physician costs and other services). Since its birth in 1965, Medicare has accounted for an ever-growing share of spending. In 1997, it will comprise 11 percent.

* Medicaid provides health care services to over 36 million Americans, including the poor, people with disabilities, and senior citizens in nursing homes. Unlike Medicare, the Federal Government shares the costs of Medicaid with the States, paying between 50 and 83 percent of the total (depending on each State's requirements). Federal and State costs are growing rapidly. Medicaid accounts for six percent of the Federal budget.

* Other means-tested entitlements provide benefits to people and families with incomes below certain minimum levels that vary from program to program. The major means-tested entitlements are Food Stamps and food aid to Puerto Rico, Aid to Families with Dependent Children, Supplemental Security Income, Child Nutrition, the Earned Income Tax Credit, and veterans' pensions. This category will account for an estimated six percent of the budget in 1997.

* The remaining entitlements, which mainly consist of Federal retirement and insurance programs and payments to farmers, comprise six percent of the budget.

* National defense discretionary spending will total an estimated $259 billion in 1997, comprising 16 percent of the budget and 3.3 percent of GDP.

* Non-defense discretionary spending --a wide array of programs that include education, training, science, technology, housing, transportation, and foreign aid --has shrunk as a share of the budget from 23 percent in 1966 to an estimated 17 percent in 1997.

* Interest payments, primarily the result of previous budget deficits, averaged seven percent of Federal spending in the 1960s and 1970s. But, due to the large budget deficits that began in the 1980s, that share quickly doubled to 15 percent, where it stands today.

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Date: _____

Student Name _____

Teacher Name _____

Student Survey
"Dealing With Taxes"

1. How confident are you that you have all the information you need in order to understand:

	Please check the box that applies to you			
	Not Very Confident	A Little Confident	Quite Confident	Have all the Information I need
a. Who needs to pay taxes and who doesn't?				
b. What the benefits from paying taxes are?				
c. What the penalties are for not paying taxes?				
d. Whether it is better for you to work as an self-employed person or as an employee?				
e. How to file taxes, both state and local, and where to find the forms?				
f. What the "Earned Income Credit" is and who is entitled to claim it?				
g. Which documents and records you need to keep and to have on hand when you pay taxes?				
h. How to figure out how many deductions you can legally claim?				
i. If you can claim as dependents family members who are still living in your native country?				
j. Who should do your taxes--you or a professional tax preparer ?				
k. If unemployment compensation is taxable or not?				

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2. How confident are you that you have the skills to:

	For Each Line, Please check the box that applies to you			
	Not Very Confident	A Little Confident	Quite Confident	Have All the Information I need
a. Read and understand U.S. tax forms?				
b. Read and understand the instructions contained in the booklets which accompany tax forms?				
c. Understand how to interpret the tax tables provided in the booklets?				
d. Compute what you owe with accuracy?				
e. Compute any refunds or credits due you?				
f. Estimate what you owe, and when you owe it, if you file as an "Self-employed person"?				

3. What were the biggest problems you faced in completing the forms for filing the taxes last year?

_____

_____

_____

4. What do you want to learn about dealing with taxes?

I want to learn:
_____
_____
_____

LAES

Date: _____

Student Name _____

Teacher Name _____

Module 17
Dealing With Taxes

Note to Instructors:

To complete this activity you must provide sufficient copies of Schedule EIC and the 1040A, 1040EZ and Schedule C for students to use. You may be able to download these forms from the IRS website

Instructions:

Please join with a partner to work on this activity. The activity is divided in two parts. The first part asks you to read background material and complete a tax form using that information. The second part asks you to reflect on your work with this module and tell us what you have learned.

Part I.

With your partner, please read the following three stories. Choose one and use the information contained in it to complete the tax return for the person. Place an X next to the story you are using to calculate the tax, and turn this paper in with the completed tax form or forms.

- If you choose story number 1, you need to complete Schedule EIC and the 1040A. Schedule EIC is the form needed to claim the earned income tax credit.
- If you choose story number 2, you need to complete form 1040EZ.
- If you choose story number 3, you need to complete Schedule C.

Stories—Put an X in the box to the left of the story selected.

❑ 1. Viet Trung lives in Santa Cruz, California. He works as a dishwasher at a restaurant. He has a wife and two small children. He is a United States citizen and his wife is a legal resident. His wife doesn't work. Look at Viet's W-2 and fill out his tax form. Don't forget the earned income tax credit. *Use form 1040A and Schedule EIC.*

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❑ 2. Jose Luis Gonzalez is from Mexico. He is single and 25 years old. He came to live with his father, a United States citizen, the last 4 months of 1995. His father helped him get a job in landscaping. Jose Luis worked for 3 months. Fill out the tax form for him. Use the form 1040EZ. Because he earned more than $2,500 his father can not claim him as a dependent. He doesn't qualify for the earned income tax credit because he was in the United States for less than half the year. *If you choose number 2, use form 1040EZ.*

❑ 3. Mike Johnson worked as a musician in a group. His group split up the money each night after work. What records should he keep and how might good records help him? Which categories on his Schedule C form might be used to list expenses.

Part II. Please tell us what you learned from your work with this module

1. Did you benefit from your work on this module regarding any of the following?

understanding better:	Yes/No	Please comment on either: • How you benefited; or • Why you feel this module was not useful for you in this area
a. Who needs to pay taxes and who doesn't?		
b. What the benefits from paying taxes are?		
c. What the penalties are for not paying taxes?		
d. If it is better for you to work as a self employed person or as an employee?		
e. How to file taxes, both state and local, and where to find the forms?		
f. What the "Earned Income Credit" is and who is entitled to claim it?		
g. What kinds of documents and records you need to keep and to have on hand when you pay taxes?		
h. How the IRS system works?		
i. Deciding who should do your taxes--you or a professional tax preparer ?		

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2. Did your work in this module help you in any of the following areas?

	Yes/No	Please comment on either: • How you benefited; or • Why you feel this module was not useful for you in this area
a. Reading and understanding written technical information.		
b. Filling out forms correctly		
c. Using charts and tax tables		
d. Adding or subtraction—calculating the right figures with which to complete the forms		
e. Documenting your income or expenses		
f. Ways to get help with completing your taxes		
g. Anything else? Please tell us about it below		